

## Brazil Watch

## Copom Minutes: dovish – but not enough for a December cut

**We now see the first rate cut in January 2026**

The BCB released the minutes of the last Copom meeting, after unanimously holding rates at 15.0%. (see [report](#)). The minutes encompassed more dovish elements than the statement, such as the incorporation of the income tax reform into their baseline scenario, the acknowledgement of an improvement in longer term inflation expectations, and a better inflation composition (services and core). Nonetheless, the wording was not dovish enough to support a December cut, as the board should prefer to wait for further improvement in conditions. We are shifting our call for the first rate cut from Dec25 to Jan26 (-50bp). We will continue to monitor Q3 activity data to assess the pace of the slowdown, including the risk of a negative Q3 GDP print, October IP, and upcoming inflation readings. We continue to expect Selic at 11.25% by 26YE.

**International scenario remains uncertain**

The assessment of the international scenario changed little, remaining uncertain. The focus shifted from the timing of the U.S. monetary policy cycle to the increased uncertainty caused by limited data availability following the government shutdown.

**Broad improvement of the domestic scenario**

The board of directors recognized all the recent improvements in the economic environment. A slightly stronger wording was used to describe the economic deceleration; the improvement in services inflation was acknowledged, and the sentence that described core inflation dynamics as “adverse” was removed; and the decline in longer inflation expectations across various horizons was recognized. The Copom also incorporated the income tax reform into its baseline inflation scenario, which implies that projections could be about 15 bps lower over the relevant horizon. In addition, the committee adjusted the tariff flag to yellow. Despite the more dovish tone of the minutes, we do not think the communication changed enough to support a cut in Dec25.

**Key points from the minutes**

1. External backdrop remains uncertain.
2. The balance of risks was left completely unchanged.
3. Economic activity is moderating in line with the BCB’s expectation.
4. Labor market continues to be viewed as resilient.
5. Inflation is slowing but still above target.
6. Improvement in services and core inflation were acknowledged.
7. A decline in longer-term inflation expectations was recognized.
8. BCB already incorporated the impact of the income tax exemption into its baseline scenario.
9. Electricity tariff flag changed from green to yellow, but inflation forecasts were not revised upward.
10. Copom expressed “greater confidence” that the current policy rate is “enough” to ensure inflation convergence to the target.

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IP – Industrial production

Copom - Monetary Policy Committee

BCB – Brazilian Central Bank

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